MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

BAC4694 – FORENSIC ACCOUNTING

(All sections / Groups)

8 JULY 2023
9.00 a.m - 12.00 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **FIVE** pages, excluding the cover page.
2. Answer **ALL** questions. All questions carry equal marks, and the distribution of the marks for each question is given.
3. Please print all your answers in the Answer Booklet provided.

QUESTION 1

Bukit Aman: Over 90,000 Online Fraud Cases From 2017-2021, Involving RM3.3b Losses

KUALA LUMPUR, March 10 -- A total of 98,607 online fraud cases involving losses totaling RM3.3 billion was reported nationwide from 2017 until 2021.

Bukit Aman Commercial Crime Investigation Department (CCID) assistant director (telecommunications criminal investigation) Supt Rozeni Ismail said during that period more than 30,000 individuals were detained and from the number, 25,000 individuals were charged in court.

"Most of them were mule account holders while those who were not charged in court were placed under the Crime Prevention Act 1959 which included restricted residence for a certain period of time," he said during a town hall discussion on the threats posed by scammers in society here today.

He said most of the cases involved Macau Scam, online sales and purchases, non-existent money loans and love scams.

Commenting further, Rozeni said that one of the reasons scammers managed to deceive their victims was that they operated using telephones or social media other than recruiting victims to become mule account holders.

"This is what makes the syndicates successful when recruiting people, regardless of giving, renting or allowing them to use their (bank) accounts for financial transactions from these online criminal activities.

"If we can successfully deal with the mule account holders, we believe that the police will be able to cripple the criminal activities of the scammers," he said.

Meanwhile, Kuala Lumpur Police Chief Datuk Azmi Abu Kassim said online fraud cases such as the Macau scam, love scam and e-purchase in the capital had gone up even though the country was still coping with the Covid-19 pandemic.

He said a total of 4,340 cases with losses of RM665 million were recorded last year compared to 4,062 cases with a loss of RM637 million recorded in 2020.

"This shows that there are still a handful of people who are easily deceived by offers, easily persuaded and are less aware of cybercrimes, thus causing them to lose millions of dollars.

"Some of the victims claimed that they had never heard of such online scams and had never been given information related to this issue," he said.

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Meanwhile, more than 1.6 billion calls and 1,500 suspicious websites have been blocked by the Malaysian Communications and Multimedia Commission (MCMC).

(Source: Ministry of Communication and Digital Official Portal)

REQUIRED:

(a) Identify the **THREE** knowledge and skills required for the forensic accountant to calculate damages.

(9 marks)

(b) In the investigation of the matter above, classify categories of forensic accounting.

(6 marks)

(c) Outline the control activities in order to manage the risk of fraud re-occurrence.

(10 marks)

[TOTAL 25 MARKS]

QUESTION 2

Mrs. Seetha is the Human Resource Manager at Smart Mistress Sdn. Bhd., a company that manufactures and sells high fashion clothing to both local and international fashion houses. As a manufacturing company, employee turnover is very high, especially on the production floor. Production is run 24 hours daily, and many production workers are working overtime. Most of the production workers are being paid in cash every month as the majority of them are foreign workers. Mrs. Seetha sees an opportunity to take advantage of this situation. She is now planning to devise a strategy to defraud the Company using her position as the Human Resource Manager.

REQUIRED:

(a) Recognize **TWO** possible fraud schemes that Mrs. Seetha could engage in to take advantage of the company's operation.

(6 marks)

(b) Describe in detail **THREE** possible audit procedures to detect the fraud schemes identified in (a) above.

(9 marks)

(c) Describe **TWO** other types of employee fraud that are common in most organizations.

(10 marks)

[TOTAL 25 MARKS]

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QUESTION 3

Marina works for the Children's Education Support Group (CESG), a respected non-profit organization in Kuala Lumpur. CESG's mission is to provide funding for the education costs of underprivileged children. As Assistant to the Chief Operating Officer (COO), she had direct and indirect access to a variety of functions, from credit card purchases to purchase order inquiries.

Marina had established a good relationship with her supervisor and other members of the organization. She had an excellent work ethic, went above and beyond her normal duties, and employees considered her a friend and colleague.

After about a year of working at CESG, Marina's personal life began to break down. She and her third husband divorced, causing emotional and financial strain. She also became involved in a real estate lawsuit with her brother. She could not take her children on vacation as usual and felt increasingly insecure because she could not participate in expensive activities with her friends.

As financial stresses increased, Marina felt she was underpaid given her good benefits and work ethic. She started thinking of small ways she could take a little something until things improved.

As an administrative assistant at COO, Marina had access to all areas of the company that her supervisor used, including:

- Access to immediate funds as an authorized user of the organization's credit card and as petty cash manager.
- Authority to submit external payment requests directly to the bank.
- Authority to submit internal payment requests to Accounts Payable.
- Authority to create open purchase orders for Accounts Payable to forward donations to children and their families and make payments to vendors.
- The ability to approve their own timecards.

Although Marina was authorized to use the organization's procurement system, she still had to submit receipts and obtain her supervisor's signature for her purchases. Yet she had no problem forging the signature of COO, Mazli for her personal purchases.

Regardless, she was confident that the finance office could not possibly conduct a detailed review of the numerous monthly purchases and corresponding receipts and would likely not find any crimes because the transactions came directly from COO 's office and were quite small to begin with. The finance office did not fight the allegations because the level of the office and the status of the COO position in that organization was so high and respected. Over time, their individual actions became more extensive and included laptops and more expensive items.

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Marina had the authority to request payments to vendors and disbursements to families supported by CESG. She was also able to make journal entries that allowed her to cover her tracks.

In several instances, she applied for payments for her needy children under the guise of needing money by filling out fake applications and falsifying memorandums. Because her children had different last names, the fake applications were not immediately noticeable. With this scheme to secure thousands of dollars for each of her children.

Marina was also able to engage in the process of accounting for stray cheques. Unexpected donations came into her office so she could help research their origin and purpose. She deposited the money into the nonprofit's general operating account and immediately made a reverse-journal entry for the exact same amount to make the transaction look like a mistake. At the same time, she drafted a letter to the bank authorizing payment of the same amount directly to her account or to a vendor, so that the money disappeared before anyone in the organization knew of its existence.

Marina obtained most of the stolen money in this method; the stolen funds paid for plastic surgery and a new mobile home that cost more than RM200,000. Marina was a petty cash manager, so she was supposed to steal RM2,000 and leave no receipts.

The CESG also provided Marina with a smartphone so she could respond to emergencies. Minimal personal use was allowed only if the charges did not exceed the minimum monthly cost of RM350. However, by talking to family members, friends, and vendors at some of the stores she visited, she kept running up monthly charges of several hundred ringgit (in one month, it was more than RM4,500). Her phone usage increased after hours without any reasonable explanation. However, since the names of the employees did not appear on the bank statements, the accountant assumed that these calls were made from COO 's cell phone.

Marina eventually gets sloppy and makes two mistakes almost simultaneously. First, the accounting department questions a duplicate cheque request meant to benefit a 'needy child' who happens to be her daughter. Second, her boss found his forged signature on a credit card authorization form under her desk. The organization launched an initial investigation. Evidence began to mount. We, the fraud investigators, noticed that receipts were often missing from her applications and discovered credit card purchases at retail stores near her home address without any explanation, as well as a variety of other suspicious transactions that required further review. We then launched a full investigation.

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REQUIRED:

(a) Explain **TWO** types of fraud that have been committed by Marina.

(6 marks)

(b) Discuss using the fraud triangle why Marina commits such fraud.

(9 marks)

(c) Discuss **FIVE** improvements that CEGS should implement to prevent such fraud from happening again in the future.

(10 marks)

[TOTAL 25 MARKS]

QUESTION 4

According to the Association of Certified Fraud Examiners (ACFE), there are three types of occupational fraud: asset misappropriation, corruption, and financial statement fraud. Asset misappropriation involves the theft of cash or misuse of a company's assets for personal benefits. Corruption is when the fraudster misuses his influence in a business transaction to provide some benefit for himself or another person. Here, the fraudster's actions are contrary to their duties, employer, or the rights of another person. Lastly, financial statement fraud usually involves the falsification of a company's financial statements.

REQUIRED:

(a) Discuss **FOUR** general areas of financial statement fraud schemes.

(8 marks)

(b) Explain **FOUR** schemes involving overstating assets.

(8 marks)

(c) Describe **THREE** red flags of possible financial statement fraud occurrence.

(9 marks)

[TOTAL 25 MARKS]

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